

## The Interaction between Public and Private Higher Education

Despite their differences in governance and funding, public and private colleges generally cooperate in advancing the cause of higher education. They come together in various organizations such as the American Council on Education and the Association of American Universities to work on behalf of important agendas such as federal research support and student financial aid.

However, there are occasionally issues on which public and private higher education part company, although this is usually more an issue of priorities and emphasis than actual disagreement. For example, for years private universities have pushed hard for federal programs to subsidize major capital facilities as one of their top priorities. While public universities have supported this effort, they have generally not viewed it as a high priority since they have had access to state appropriations for capital facilities. So, too, the tax policies governing public and private universities are somewhat different, and hence receive different attention.

However there is one area where public and private higher universities come into more direct conflict: the competition for outstanding faculty and students. Although one might think that there is a sharp difference between the student admissions selectivity of public and private colleges and universities, in reality flagship state public universities have generally been able to attract many of the most outstanding students from their region. Such a cohort of outstanding students is particularly important to large public universities, since these students set the pace, the academic standards, for the rest of the student body.

Today, however, several factors are converging that threaten the quality of students enrolling in public universities. Part of the challenge is perception, since students and parents are increasingly influenced by popular college rankings such as U.S. News & World Report based upon criteria such as endowment per student or expenditure per student that are clearly biased toward smaller, private institutions. It is worth noting here that because of their large size, even outstanding public universities such as the University of California and University of Virginia do not make the top twenty in the USN&WR rankings, although clearly the academic and instructional resources of these institutions dwarf those of many institutions listed higher on the list.

A second factor has to do with more aggressive efforts by the most selective private colleges and universities to buy “the best and brightest” students through generous financial aid using the vast wealth they have accumulated as a booming economy has swelled private giving and endowment growth. Despite the fact that these institutions have become more selective than ever, now accepting only 10% to 20% of those who apply, they are increasingly using financial aid not simply to meet the needs of less fortunate students but moreover to outbid the offers from other institutions. As Harvard’s admission brochures state: “We expect that some of our admitted students will have particularly attractive offers from institutions with new aid programs, and those students should not assume we will not respond.”<sup>1</sup> Needless to say, despite their relatively low tuition levels, public universities have a difficult time competing with such an aggressive stance.

The faculty recruiting practices of several of the wealthiest private universities raises a similar concern. Most colleges and universities build their senior faculty ranks

from within, by hiring and developing junior faculty. However, several elite private universities prefer instead to build their senior faculty by raiding established faculty members from other institutions. Their vast wealth allows them to make offers to faculty members that simply cannot be matched by public universities. Most deans of major public universities can readily testify to the great effort expended to fend off raids on their top faculty by wealthy private universities.

The growing disparity in the resources available to public and private colleges and universities has made this competition even more of a challenge. As Alexander notes, the past three decades of growth in federal and state direct student aid policies have favored those institutions that are heavily reliant on student tuition.<sup>2</sup> Indeed, this was an original intent of direct student aid programs, to provide public funding to students so that price disparities between higher cost and lower cost institutions were eliminated. As a result, private institutions have been able to substantially increase tuition revenue, subsidized in part by generous federal financial aid programs that covered roughly 40 percent of their high tuition pricing. Public cost controls have limited most public colleges and universities from taking full advantage of the fiscal incentives provided by state and federal direct student aid programs. When coupled with a 25% decline in state appropriations as a proportion of the revenue of public institutions over the past two decades<sup>3</sup>, and the surge in endowments and private giving during bullish equity market of the late 1990s, it is not surprising that public universities have fallen further behind their private university counterparts in expenditures per enrolled student.

One important manifestation of this fiscal disparity is provided by the most significant component of instruction-related expenditures, faculty salaries. Since 1980

salary disparities in all faculty ranks have increased significantly favoring private research universities. Prior to 1980, faculty salaries in the late 1960s and early 1970s were relatively consistent between public and private research universities and only slightly favored private university faculty, with the average differences across all professorial ranks amounting to less than \$2,000 (in 1998 constant dollars). After 1980s, public-private university salary disparities began to increase dramatically and have continued through the 1990s, to over \$14,000 in 1998. Alexander notes that only three public Research I universities have improved upon their faculty salary market position since 1980 when compared to the average salaries of faculty at private research universities.<sup>4</sup> Even among the nation's most distinguished public universities such as the University of California at Berkeley and the University of Wisconsin the gap has widened between average faculty salaries and those of private universities.

To illustrate the problem, it is instructive to think of higher education as a complex ecosystem, comprised of a wide variety of life forms. Most are benign and pastoral, such as the community colleges, comprehensive universities, and liberal arts colleges, which serve particular constituencies in a largely noncompetitive environment. In this ecosystem, the public research universities would be competitive, but probably akin to elephants, slow of foot, and seldom directly combative. But, at the top of the food chain, are the intensively competitive predators, carnivores such as Harvard and Princeton, that tend to feed on the rest, using their vast wealth to lure away other universities' best faculty and students and leaving behind depleted if not decimated academic programs in public universities.

Of course, when challenged about their faculty raids on public universities, the elite private institutions generally respond by suggesting a trickle-down theory. Such free-market competition, they argue, enhances the quality of all faculties, accepting the fundamental premise that the very best faculty members should be in the wealthiest institutions. Of course they usually do not acknowledge that in their predatory recruiting they are generally attempting to lure away outstanding senior scholars who have already benefited from years of support by public universities during their scholarly development. Nor do they admit--although they certainly realize--the damage that is done to the academic programs of public universities by their raiding practices.

But, as in all ecosystems, evolutionary adaptation does occur. As we noted earlier in this chapter, the vast wealth of the elite private universities also depends in part upon public largesse, in this case through very generous tax policies that benefit both charitable giving and endowment investments. As the faculty raiding practices of these predatory institutions become more aggressive and intrusive, the large public universities may eventually be forced to unleash their most powerful defensive weapon: political clout. After all, influential as the elite private universities may be, they are no match for the political influence of flagship state universities, able to build and coordinate considerable political pressure in every state and within Congress. One can imagine a situation in which the pain from irresponsible faculty raids by wealthy private universities becomes so intense that the public universities are compelled to unleash the “T” word, tax policy, and question the wisdom of current tax policies that sustain such vast wealth and irresponsible behavior at public expense to both taxpayers and to their public institutions. Needless to say, this would be the equivalent of nuclear warfare and could damage both

private and public higher education. But it could happen if the very wealthy private universities do not behave in a more responsible fashion by curtailing their current faculty raiding practices.

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<sup>1</sup> Robert B. Reich, “How Selective Colleges Heighten Inequality”, Chronicle of Higher Education, September 15, 2000, B7-B10

<sup>2</sup> F. King Alexander, “Student Tuition and the Higher Education Marketplace: Policy Implications for Public Universities,” Journal of Staff, Program, and Organization Development (Winter, 1999).

<sup>3</sup> National Center for Post-Secondary Improvement, Stanford University, 2001.

<sup>4</sup> F. King Alexander, “National Trends in the Relative Fiscal Capacity of Public Universities to Compete in the Academic Labor Market”, Journal of Staff, Program, and Organization Development (Winter, 1999).